

MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL
STATEMENTS

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Years Ended September 30, 2005 and 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Management's Discussion and Analysis and Basic Financial Statements

Years Ended September 30, 2005 and 2004

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Report of Independent Auditors

The Board of Commissioners
Hospital Service District No. 3 of the Parish
of Lafourche, State of Louisiana

We have audited the accompanying balance sheets of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the Hospital), as of September 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and in accordance with the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the financial statements, in 2005, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, which required additional investment related disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and

the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

January 26, 2006

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Management's Discussion and Analysis

This section of the Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the Hospital), annual financial report provides important background information and management's analysis of the Hospital's financial performance during the fiscal years ended September 30, 2005 and 2004. Please read this section in conjunction with the basic financial statements in this report.

Required Financial Statements

The basic financial statements contained in this report are presented using Governmental Accounting Standards Board (GASB) accounting principles. These financial statements offer short-term and long-term financial information about the Hospital's activities.

The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures changes in the Hospital's operations over the past year and can be used to determine whether the Hospital has been able to recover all of its costs through its net patient service revenue and other revenue sources.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operating, investing, and financing activities and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Hospital

The balance sheets and the statements of revenues, expenses, and changes in net assets report information about the Hospital's activities. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Management's Discussion and Analysis (continued)

2005 Financial Highlights

The following summarizes the Hospital's financial highlights for the year ended September 30, 2005.

The Hospital generated \$17,856,000 in cash from operations during the year ended September 30, 2005. Investments in property and equipment totaled \$24,619,000 for the 2005 fiscal year.

The Hospital reported an increase in net patient service revenue of \$4,036,000 in 2005. This was a 5% increase compared to 2004. The increase was driven by volume increases and the introduction of new services in 2005.

The Hospital's operating margin was 15.7% in 2005 versus 14.1% in 2004. Operating expenses increased at a slower rate than operating revenue.

Balance Sheets

The Hospital's condensed balance sheets are presented below:

TABLE 1

	September 30 2005	September 30 2004	Dollar Change	Percent Change
	<i>(In Thousands)</i>			
Total current assets	\$ 27,706	\$ 26,905	\$ 801	3%
Property, plant, and equipment – net	78,435	61,358	17,077	28%
Investments	67,588	70,818	(3,230)	(5)%
Other	148	–	148	100%
Total assets	<u>\$ 173,877</u>	<u>\$ 159,081</u>	<u>\$ 14,796</u>	9%
Total current liabilities	\$ 10,468	\$ 10,962	\$ (494)	(5)%
Net assets	<u>163,409</u>	<u>148,119</u>	<u>15,290</u>	10%
Total liabilities and net assets	<u>\$ 173,877</u>	<u>\$ 159,081</u>	<u>\$ 14,796</u>	9%

As shown in Table 1, total assets increased by \$14,796,000, or 9%, to \$173,877,000 at September 30, 2005, up from \$159,081,000 at September 30, 2004.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Management's Discussion and Analysis (continued)

Current Assets

Increases in current assets result primarily from the increase in accounts receivable exceeding the decrease in cash at September 30, 2005, compared to the amounts at September 30, 2004. Management invests excess cash in investments. At September 30, 2005, current assets continued to exceed current liabilities. The current ratio increased to 2.6 at September 30, 2005, versus 2.5 at September 30, 2004. These calculations exclude consideration of the investments designated by the board of commissioners for plant and equipment additions and replacements. Including these liquid investments in the calculations would yield substantially higher ratios.

Property, Plant, and Equipment

The following table presents the components of the Hospital's property, plant, and equipment at September 30, 2005 and 2004:

TABLE 2

	September 30	
	2005	2004
	<i>(In Thousands)</i>	
Land and land improvements	\$ 5,751	\$ 3,370
Building, fixed equipment, and equipment	93,338	93,218
Subtotal	99,089	96,588
Less accumulated depreciation and amortization	(54,709)	(49,621)
Construction in progress	34,055	14,391
Net property, plant, and equipment	\$ 78,435	\$ 61,358

During fiscal year 2005, the Hospital invested \$24,619,000 in a broad range of capital assets. Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities and equipment and is in the process of building an adjoining medical office building and new space to accommodate inpatient services. These additions significantly exceeded the current fiscal year's depreciation expense.

In Table 3, the Hospital's fiscal year 2006 capital budget projects spending up to \$30,685,000. These projects are expected to be financed from operations. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Management's Discussion and Analysis (continued)

TABLE 3

Equipment purchases	\$ 3,000,000
Construction/renovation	27,685,000
Total	<u>\$ 30,685,000</u>

Net Assets

The following table presents the components of the Hospital's net assets at September 30, 2005 and 2004:

TABLE 4

	September 30	
	2005	2004
	<u>(In Thousands)</u>	
Invested in capital assets, net of related debt	\$ 78,435	\$ 61,358
Unrestricted	84,974	86,761
	<u>\$ 163,409</u>	<u>\$ 148,119</u>

During 2005, total net assets increased \$15,290,000, or 10%, as a result of revenue exceeding expenses.

The Hospital purchased \$24,619,000 of property, plant, and equipment during 2005, which increased the reported amount of net assets invested in capital assets. This increase was offset by depreciation expense of \$7,542,000.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
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Management's Discussion and Analysis (continued)

Statements of Revenue and Expenses

A summary of the Hospital's revenues and expenses for fiscal years 2005 and 2004 is presented below:

TABLE 5

	Years Ended September 30	2005	2004	Dollar	Percent
				Change	Change
	<i>(In Thousands)</i>				
Revenue:					
Net patient service revenue	\$	82,684	\$ 78,648	\$ 4,036	5%
Other revenue		1,339	1,371	(32)	(2)%
Total revenue		<u>84,023</u>	<u>80,019</u>	<u>4,004</u>	<u>5%</u>
Expenses:					
Salaries and wages and employee benefits and payroll taxes		32,297	30,197	2,100	7%
Other operating expenses		30,977	30,965	12	0%
Depreciation and amortization		7,542	7,366	176	2%
Interest		—	278	(278)	(100)%
Total expenses		<u>70,816</u>	<u>68,806</u>	<u>2,010</u>	<u>3%</u>
Income from operations		13,207	11,213	1,994	18%
Nonoperating income		2,084	931	1,153	124%
Bond retirement costs		—	(828)	828	(100)%
Revenue in excess of expenses	\$	<u>15,291</u>	\$ 11,316	\$ 3,975	35%

Net Patient Service Revenue

During fiscal year 2005, the Hospital derived 98% of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$4,036,000, or 5%, in 2005. Increases in net patient service revenue primarily are due to increases in outpatient volumes, surgery, and the addition of new services. Overall activity at the Hospital, as measured by inpatient acute discharges, increased 2.5% to 7,349 discharges in 2005 from 7,167 discharges in 2004. Acute patient days increased 6% over prior year, from 27,437 in 2004 to 29,052 in 2005. As a result, the average length of stay for all patients (excluding newborns) increased to 3.95 days in 2005 from 3.83 days in 2004.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
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Management's Discussion and Analysis (continued)

Table 6 presents the relative percentages of gross charges billed for patient services by payor for fiscal years 2005 and 2004:

TABLE 6

	Years Ended September 30	
	2005	2004
Medicare	49%	49%
Managed care	37	38
Medicaid	10	10
Self-pay	4	3
	100%	100%

The following table presents the components of net patient service revenue for fiscal years 2005 and 2004:

TABLE 7

	Years Ended September 30		Change	
	2005	2004	Dollar	Percent
	<i>(In Thousands)</i>			
Gross patient service charges	\$ 221,008	\$ 206,194	\$ 14,814	7%
Contractual and other allowances:				
Medicare	74,856	70,455	4,401	6%
Managed care	32,267	28,870	3,397	12%
Medicaid	20,070	17,988	2,082	11%
Other	4,767	5,727	(960)	(17)%
Total contractual allowances	131,960	123,040	8,920	7%
	89,048	83,154	5,894	7%
Provision for doubtful accounts	6,364	4,506	1,858	41%
Net patient service revenue	\$ 82,684	\$ 78,648	\$ 4,036	4%

Gross patient service charges increased \$14,814,000, or 7%, from prior year primarily due to increased patient volume. Net patient service revenue, before provision for doubtful accounts, increased \$5,894,000, or 7%, as there was no change in total contractual allowances as a percentage of gross patient service charges.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
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Management's Discussion and Analysis (continued)

Excluded from gross patient service charges are amounts forgone for patient services falling under the Hospital's charity care policy. These amounts are based on established rates for the services provided. Gross charges of \$1,471,000 were forgone during the current fiscal year compared to \$884,000 in the prior fiscal year. This increase was related to the growth in the number of patients applying for financial assistance.

The provision for doubtful accounts increased to \$6,364,000 from the prior-year amount of \$4,506,000. This \$1,858,000, or 41%, increase is driven primarily by the increase in self-pay revenue.

Operating Expenses

Employee-related expenses increased \$2,100,000, or 7%, to \$32,297,000 in the current fiscal year from \$30,197,000 in the prior fiscal year. The increase is mainly due to wage increases that were effective January 2005 and a small increase in employees. As a percentage of total revenue, these expenses were approximately 38% for each of the fiscal years ended September 30, 2005 and 2004.

Other operating expenses increased \$12,000, or 0%, from prior year. As a percentage of total revenue, these expenses were approximately 37% and 39% for 2005 and 2004, respectively.

Depreciation and amortization expense increased \$176,000, or 2%, from prior year. Depreciation expense remained consistent between years as most of the current-year property, plant, and equipment additions were to construction in progress.

Nonoperating Income

Nonoperating income is comprised primarily of investment income. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains realized that are not directly related to the provision of health care services are also classified as nonoperating income. The net unrealized gain on market value adjustments is also included in this amount. Nonoperating income increased from the prior year primarily due to higher interest rates in 2005.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
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Management's Discussion and Analysis (continued)

2004 Financial Highlights

The following summarizes the Hospital's financial highlights for the year ended September 30, 2004.

The Hospital generated \$19,984,000 in cash from operations during the year ended September 30, 2004. Investments in property and equipment totaled \$18,681,000 for the 2004 fiscal year. Additionally, the Hospital repaid all of the outstanding long-term debt.

The Hospital reported an increase in net patient service revenue of \$2,016,000 in 2004. This was a 3% increase compared to 2003. The increase was driven by volume increases, a rate increase, and the introduction of new services in 2004.

The Hospital's operating margin was 14.1% in 2004 versus 14.2% in 2003. Operating expenses increased at a slightly faster rate than operating revenue.

Balance Sheets

The Hospital's condensed balance sheets are presented below:

TABLE 8

	September 30 2004	2003	Dollar Change	Percent Change
	<i>(In Thousands)</i>			
Total current assets	\$ 26,905	\$ 25,135	\$ 1,770	7%
Property, plant, and equipment – net	61,358	50,071	11,287	23%
Other assets, including assets whose use is limited	70,818	89,383	(18,565)	(21)%
Total assets	<u>\$ 159,081</u>	<u>\$ 164,589</u>	<u>\$ (5,508)</u>	(3)%
Total current liabilities	\$ 10,962	\$ 11,553	\$ (591)	(5)%
Long-term debt	–	16,233	(16,233)	(100)%
Total liabilities	10,962	27,786	(16,824)	(61)%
Net assets	148,119	136,803	11,316	8%
Total liabilities and net assets	<u>\$ 159,081</u>	<u>\$ 164,589</u>	<u>\$ (5,508)</u>	(3)%

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
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Management's Discussion and Analysis (continued)

As shown in Table 8, total assets decreased by \$5,508,000, or 3%, to \$159,081,000 at September 30, 2004, up from \$164,589,000 at September 30, 2003. The change in total assets results primarily from investments being sold to retire long-term debt.

Current Assets

Increases in current assets result primarily from the accumulation of cash exceeding a reduction in accounts receivable of approximately \$0.7 million at September 30, 2004, compared to the amount at September 30, 2003. At September 30, 2004, current assets continued to exceed current liabilities. The current ratio increased to 2.5 at September 30, 2004, versus 2.2 at September 30, 2003. These calculations exclude consideration of the investments designated by the board of commissioners for plant repair and expansion. Including these liquid investments in the calculations would yield substantially higher ratios.

Property, Plant, and Equipment

The following table presents the components of the Hospital's property, plant, and equipment at September 30, 2004 and 2003:

TABLE 9

	September 30	
	2004	2003
	<i>(In Thousands)</i>	
Land and land improvements	\$ 3,370	\$ 3,338
Building, fixed equipment, and equipment	93,218	90,454
Subtotal	96,588	93,792
Less accumulated depreciation and amortization	(49,621)	(46,339)
Construction in progress	14,391	2,618
Net property, plant, and equipment	<u>\$ 61,358</u>	<u>\$ 50,071</u>

During fiscal year 2004, the Hospital invested \$18,681,000 in a broad range of capital assets. Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities and equipment and is in the process of building new space to accommodate inpatient services. These additions exceeded the fiscal year's depreciation expense.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
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Management's Discussion and Analysis (continued)

Long-Term Debt

At year-end, the Hospital had no debt outstanding as it was repaid in full during the year. A premium of \$331,000 was paid as a result of this transaction. No new long-term debt was incurred in the current year.

Net Assets

The following table presents the components of the Hospital's net assets at September 30, 2004 and 2003:

TABLE 10

	September 30	
	2004	2003
	<i>(In Thousands)</i>	
Invested in capital assets, net of related debt	\$ 61,358	\$ 33,413
Restricted	—	2,570
Unrestricted	86,761	100,820
	<u>\$ 148,119</u>	<u>\$ 136,803</u>

During 2004, total net assets increased \$11,316,000, or 8%, as a result of revenue exceeding total expenses.

The Hospital purchased \$18,681,000 of property, plant, and equipment during 2004, which increased the reported amount of net assets invested in capital assets, net of related debt, and made principal payments on related debt of \$16,950,000. This increase was offset by depreciation expense of \$7,273,000.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
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Management's Discussion and Analysis (continued)

Statements of Revenue and Expenses

A summary of the Hospital's revenues and expenses for fiscal years 2004 and 2003 is presented below:

TABLE 11

	Years Ended September 30		Dollar	Percent
	2004	2003	Change	Change
	<i>(In Thousands)</i>			
Revenue:				
Net patient service revenue	\$ 78,648	\$ 76,632	\$ 2,016	3%
Other revenue	1,371	1,566	(195)	(12)%
Total revenue	80,019	78,198	1,821	2%
Expenses:				
Salaries and wages and employee benefits and payroll taxes	30,197	29,454	743	3%
Other operating expenses	30,965	30,524	441	1%
Depreciation and amortization	7,366	6,084	1,282	21%
Interest	278	1,037	(759)	(73)%
Total expenses	68,806	67,099	1,707	3%
Income from operations	11,213	11,099	114	(1)%
Nonoperating income	931	1,149	(218)	(19)%
Bond retirement costs	(828)	—	(828)	(100)%
Revenue in excess of expenses	\$ 11,316	\$ 12,248	\$ (932)	(8)%

Net Patient Service Revenue

During fiscal year 2004, the Hospital derived 98% of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$2,016,000, or 3%, in 2004. Increases in net patient service revenue primarily are due to increases in outpatient volumes, surgery, and the addition of new procedures, including PET CT, IMRT, Prostate Brachytherapy, and Digital Mammography. Overall activity at the Hospital, as measured by inpatient acute discharges, decreased 1% to 7,167 discharges in 2005 from 7,239 discharges in 2003. Acute patient days increased 2% over prior year, from 26,964 in 2003

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Management's Discussion and Analysis (continued)

to 27,437 in 2004. As a result, the average length of stay for all patients (excluding newborns) increased to 3.83 days in 2004 from 3.71 days in 2003.

Table 12 presents the relative percentages of gross charges billed for patient services by payor for fiscal years 2004 and 2003:

TABLE 12

	Years Ended September 30	
	2004	2003
Medicare	49%	51%
Managed care	38	36
Medicaid	10	9
Self-pay	3	4
	<u>100%</u>	<u>100%</u>

The following table presents the components of net patient service revenue for fiscal years 2004 and 2003:

TABLE 13

	Years Ended September 30		Change	
	2004	2003	Dollar	Percent
	<i>(In Thousands)</i>			
Gross patient service charges	\$ 206,194	\$ 189,379	\$ 16,815	9%
Contractual and other allowances:				
Medicare	70,455	63,644	6,811	11%
Managed care	28,870	25,283	3,587	14%
Medicaid	17,988	13,811	4,177	30%
Other	5,727	4,314	1,413	33%
Total contractual allowances	<u>123,040</u>	<u>107,052</u>	<u>15,988</u>	<u>15%</u>
	83,154	82,327	827	1%
Provision for doubtful accounts	4,506	5,695	(1,189)	(21)%
Net patient service revenue	<u>\$ 78,648</u>	<u>\$ 76,632</u>	<u>\$ 2,016</u>	<u>3%</u>

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Management's Discussion and Analysis (continued)

While gross patient service charges increased \$16,815,000, or 9%, from prior year due to increased volume and rate increases, net patient service revenue, before provision for doubtful accounts, increased \$827,000, or 1%, due to an increase in total contractual allowances as a percentage of gross patient service charges.

Excluded from gross patient service charges are amounts forgone for patient services falling under the Hospital's charity care policy. These amounts are based on established rates for the services provided. Gross charges of \$884,000 were forgone during the current fiscal year compared to \$739,000 in the prior fiscal year.

The provision for doubtful accounts decreased to \$4,506,000 from the prior-year amount of \$5,695,000. This \$1,189,000, or 21%, decrease is driven primarily by the increased focus to collect charges.

Operating Expenses

Employee-related expenses increased \$743,000, or 3%, to \$30,197,000 in the current fiscal year from \$29,454,000 in the prior fiscal year. The increase is mainly due to wage increases that were effective January 2004. As a percentage of total revenue, these expenses were approximately 38% and 38% for 2004 and 2003, respectively.

Other operating expenses increased \$441,000, or 1%, from prior year. As a percentage of total revenue, these expenses were approximately 39% for each of the fiscal years ended September 2004 and 2003.

Depreciation and amortization expense increased \$1,282,000, or 21%, from prior year. The increase is due to additions to capital assets of \$18,681,000 during 2004.

Interest expense decreased to \$278,000, or 73%, from the prior year. The decrease is due to the bonds being fully repaid during 2004.

Nonoperating Income

Nonoperating income is comprised primarily of investment income. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains realized that are not directly related to the provision of health care services are also classified as nonoperating income. The net unrealized gain on market value adjustments is also included in this amount. Nonoperating income decreased from the prior year due to the sale of investments to retire all outstanding long-term debt.

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Management's Discussion and Analysis (continued)

Contacting the Hospital's Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.

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Balance Sheets

	September 30	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,819,442	\$ 11,274,328
Short-term investments	654,684	648,403
Patient accounts receivable, less allowances for uncollectible accounts of \$8,829,000 in 2005 and \$8,996,000 in 2004	15,196,988	13,057,336
Interest and other receivables	26,458	15,011
Inventories	1,293,292	1,188,450
Prepaid expenses	715,456	721,338
Total current assets	<u>27,706,320</u>	<u>26,904,866</u>
 Cash and investments designated by Board for plant and equipment additions and replacements	 67,588,279	 70,818,622
 Other assets	 148,000	 —
 Property, plant, and equipment:		
Land and land improvements	5,750,979	3,370,155
Buildings and fixed equipment	45,986,082	45,089,596
Equipment	47,350,835	48,128,150
Accumulated depreciation and amortization	<u>(54,708,544)</u>	<u>(49,621,210)</u>
	44,379,352	46,966,691
Construction in progress	34,055,160	14,391,254
	<u>78,434,512</u>	<u>61,357,945</u>
	<u>\$ 173,877,111</u>	<u>\$ 159,081,433</u>

	September 30	
	2005	2004
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,362,338	\$ 4,756,380
Employee compensation	2,978,629	3,923,823
Amounts due to contractual third-party payers	2,126,786	2,282,583
Total current liabilities	10,467,753	10,962,786
Net assets:		
Invested in capital assets, net of related debt	78,434,512	61,357,945
Unrestricted	84,974,846	86,760,702
Total net assets	163,409,358	148,118,647
	<u>\$ 173,877,111</u>	<u>\$ 159,081,433</u>

See accompanying notes.

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Statements of Revenues, Expenses, and Changes in Net Assets

	Years Ended September 30	
	2005	2004
Net patient service revenue	\$ 82,684,350	\$ 78,647,869
Other revenue	1,338,731	1,370,828
Total revenue	84,023,081	80,018,697
Expenses:		
Salaries and wages	27,446,156	25,887,502
Employee benefits and payroll taxes	4,850,415	4,309,983
Professional fees	7,384,246	7,999,188
Supplies and materials	12,370,376	11,956,412
Purchased services	6,322,322	5,878,043
Other	4,900,395	5,131,772
Depreciation and amortization	7,542,308	7,365,828
Interest	—	277,540
Total expenses	70,816,218	68,806,268
Income from operations	13,206,863	11,212,429
Nonoperating income (expense):		
Investment income	2,069,875	1,024,046
Other	13,973	(92,760)
Total nonoperating income	2,083,848	931,286
Revenue in excess of expenses	15,290,711	12,143,715
Bond retirement costs	—	828,083
Revenue in excess of expenses and bond retirement costs	15,290,711	11,315,632
Net assets at beginning of year	148,118,647	136,803,015
Net assets at end of year	\$ 163,409,358	\$ 148,118,647

See accompanying notes.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Statements of Cash Flows

	Years Ended September 30	
	2005	2004
Operating activities		
Revenue collected	\$ 81,727,632	\$ 79,765,867
Cash payments to employees and for employee-related costs	(32,957,149)	(29,960,851)
Cash payments for operating expenses	(30,914,404)	(29,821,047)
Net cash provided by operating activities	17,856,079	19,983,969
Investing activities		
Interest received on investments	1,982,056	1,024,046
Purchases of funds designated under bond resolutions	—	(14,563,209)
Sales and maturities of funds designated under bond resolutions	—	17,133,040
Purchases of funds designated by board for plant repair and expansion	(63,100,000)	(878,680)
Sales and maturities of funds designated by board for plant repair and expansion	66,418,162	18,000,000
Purchases of investments	(6,281)	(1,996)
Net cash provided by investing activities	5,293,937	20,713,201
Capital and related financing activities		
Purchases of property, equipment, and other assets	(24,618,875)	(18,681,459)
Principal payments on debt incurred for capital purposes	—	(16,950,001)
Interest payments on debt	—	(783,853)
Bond retirement costs paid	—	(330,500)
Net cash used in capital and related financing activities	(24,618,875)	(36,745,813)
Noncapital financing activity		
Other nonoperating income received (expenses paid), net	13,973	(92,760)
Net cash provided by (used in) noncapital financing activity	13,973	(92,760)
Net change in cash and cash equivalents	(1,454,886)	3,858,597
Cash and cash equivalents at beginning of year	11,274,328	7,415,731
Cash and cash equivalents at end of year	\$ 9,819,442	\$ 11,274,328
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 13,206,863	\$ 11,212,429
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	7,542,308	7,272,523
Amortization	—	93,305
Interest expense on debt	—	277,540
Provision for doubtful accounts	6,364,476	4,506,452
Loss on sale of equipment	—	122,133
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(8,504,128)	(3,817,593)
(Increase) decrease in other receivables	(11,447)	6,859
Increase in inventories and prepaid expenses	(98,960)	(30,951)
Increase (decrease) in accounts payable, accrued expenses, and employee compensation	(339,236)	1,282,961
Decrease in amounts due to contractual third-party payers	(155,797)	(941,689)
Net cash provided by operating activities	\$ 17,856,079	\$ 19,983,969

See accompanying notes.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements

September 30, 2005

1. Organization and Significant Accounting Policies

Organization

The accompanying financial statements include the accounts and transactions of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the Hospital). Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana, is a nonprofit corporation organized by Lafourche Parish. The Lafourche Parish Council, which is the governing authority of Lafourche Parish, Louisiana, appoints members to the Hospital's board of commissioners. As a political subdivision, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code. This exemption also extends to state income taxes.

Basis of Accounting

The Hospital reports in accordance with accounting principles generally accepted in the United States as specified by the American Institute of Certified Public Accountants' *Audits of Providers of Health Care Services* and, as a governmental entity, also reports in accordance with accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

The Hospital uses the accrual basis of accounting for proprietary funds. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In the health care environment, it is reasonably possible that estimates regarding third-party payments could change in the near term as a result of one or more future confirming events (for example, regulatory actions reflecting local or national audit or enforcement initiatives). For most entities with significant third-party revenues, the effect of the change could be material to the financial statements. Where material exposure exists, the uncertainty regarding revenue realization is disclosed in the notes to the financial statements.

Operating Revenue and Nonoperating Income

The Hospital's primary purpose is to provide diversified health care services to individuals, physicians, and businesses in Lafourche Parish and the surrounding communities. As such, activities related to the ongoing operations of the Hospital are classified as operating revenue. Operating revenue includes that generated from direct patient care, related support services, gains or losses from disposition of operating properties, rental income, and sundry revenues related to the operation of the Hospital.

Income, gains, and losses from investments not generated from operating funds and those not directly related to the ongoing operations of the Hospital or that occur infrequently, and gifts, grants, and bequests not restricted by donors for specific purposes, are reported as nonoperating income.

Net Patient Service Revenue and Related Receivables

The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payers that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue and related receivables are reported at the estimated net realizable amounts billed to patients, third-party payers, and others for services rendered. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries was approximately 43% in 2005 and 42% in 2004.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from third-party payers in the financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in increases to net patient service revenue of \$216,000 in 2005 and \$1,168,000 in 2004. Estimated settlements through September 30, 2002, for the Medicare program and through September 30, 2000, for the Medicaid program have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates required. The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2005, will be reported in the Hospital's results of operations as such determinations are made.

Allowances for doubtful accounts are estimated based on historical write-off and collection percentages, and contractual allowances are estimated based on the terms of third-party insured contracts. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges forgone, based on established rates, totaled \$1,471,000 in 2005 and \$884,000 in 2004.

Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments that are readily convertible to cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates, excluding amounts whose use is limited by board designation or under trust agreements.

Investments

All investments are stated at fair value based on quoted market price. Changes in the fair value of investments are included in investment income.

Inventories

Inventories are valued at the latest invoice price, which approximates the lower of cost (first-in, first-out method) or market.

Property, Plant, and Equipment

The Hospital records all property, plant, and equipment acquisitions at cost except for assets donated to the Hospital. Donated assets are recorded at fair value at the date of donation. The Hospital provides for depreciation using the straight-line method over the estimated useful lives of the assets.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Net Assets

The Hospital's net assets are classified into three components and are defined as follows:

- Invested in capital assets, net of related debt—This component reports capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of September 30, 2005 and 2004, the Hospital had no outstanding debt.
- Restricted—This component reports those net assets with externally imposed constraints placed on their use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There were no restricted net assets at September 30, 2005 and 2004.
- Unrestricted—This component reports net assets that do not meet the definition of either of the other two components.

2. Long-Term Debt

During 2004, the Hospital repaid the Hospital Revenue Bonds, Series 1993. The redemption of the bonds prior to maturity was subject to a premium of up to 2%. All unamortized debt issuance costs and original issue discounts were expensed at the time of the redemption.

3. Cash and Equivalents, and Investments

In 2005, the Hospital adopted GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, which requires additional disclosures of investment risks related to credit risk, concentration of credit risk, and interest rate risk associated with interest-bearing investments. Such disclosures required by GASB 40 and applicable to the Hospital are reflected below.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

3. Cash and Equivalents, and Investments (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Hospital's investment policy, which conforms to Louisiana state law, does not specifically limit investment in securities based on an NRSRO credit rating, but the policy does designate authorized investments by type. These authorized investments, within established guidelines, are limited to securities of the U.S. government or its agencies, U.S. government obligations, U.S. and Louisiana municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment companies or investment trusts, and an investment trust consisting of pooled or commingled funds of other hospitals.

Per GASB 40, unless there is information to the contrary, obligations of the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The following table presents each applicable rating grouped by investment type as of September 30, 2005:

By Investment Type	Fair Value	Rating
Cash deposits, operating funds	\$ 8,474,616	Exempt from Disclosure
Certificates of deposit	63,579,411	
Money market deposits	6,008,378	
Total cash and investments	<u>\$ 78,062,405</u>	
By Balance Sheet Category	Fair Value	
Cash and cash equivalents	\$ 9,819,442	
Short-term investments	654,684	
Designated assets by Board for plant equipment additions and replacements	67,588,279	
Total cash and investments	<u>\$ 78,062,405</u>	

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

3. Cash and Equivalents, and Investments (continued)

Concentration of Credit Risk

The Hospital's investment policy, in accordance with state statute, restricts investments in U.S. agencies to 50% of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20% of total investments. At September 30, 2005, management believes the Hospital complies with this policy.

Per GASB 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than 5% of the market value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At September 30, 2005, the Hospital had no investments requiring concentration-of-credit-risk disclosure.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Hospital will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Thibodaux Regional Medical Center's formal investment policy is governed by and in conformity with Section 39:2955 of the Louisiana Revised Statutes, which establishes guidelines for depository and investment activity.

- In accordance with statutes of the state of Louisiana, the Hospital maintains its deposits at financial institutions authorized by the Board of Commissioners.
- The collateral for public entity deposits in financial institutions is held in the name of the State Treasurer of Louisiana under a program established by the Louisiana State Legislature and is governed by Section 33:2955 of the Louisiana Revised Statutes. Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

3. Cash and Equivalents, and Investments (continued)

- Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits.
- In the event of a financial institution's failure, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Per GASB 40, investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At September 30, 2005, deposits and investments requiring custodial credit risk disclosure totaled \$77,455,000, all of which were insured or collateralized in accordance with state statute.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of September 30, 2005.

By Investment Type	Fair Value	Years
		< 1
Cash deposits, operating funds	\$ 8,474,616	\$ 8,474,616
Certificates of deposit	63,579,411	63,579,411
Money market deposits	6,008,378	6,008,378
Total cash and investments	<u>\$ 78,062,405</u>	<u>\$ 78,062,405</u>

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

4. Retirement Plan

The Hospital sponsors a deferred compensation plan (the Plan) under Section 457(b) of the Internal Revenue Code. The Plan covers all employees age 21 or older with one year of service in which at least 1,000 hours were worked. The Plan provides that the Hospital, at its option, may make contributions to the Plan based on a discretionary percentage of eligible employees' base compensation, as defined, as well as matching contributions. The Hospital's discretionary contribution percentage was 4% for the years ended September 30, 2005 and 2004. The Plan permits tax deferral by employees of amounts, combined with the Hospital's contribution, up to a maximum of 25% of their base compensation, subject to certain limits. Employer contributions vest at 20% per year until they reach 100% at the end of year five. Employee contributions are immediately vested.

Retirement expense recorded by the Hospital for the years ended September 30, 2005 and 2004, totaled approximately \$673,000 and \$609,000, respectively, or approximately 4% of covered payroll in each year.

5. Contingencies

The Hospital participates in the State of Louisiana Patient Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and costs. The Fund provides coverage on a claims-made basis for claims over \$100,000 and up to \$500,000. The Hospital is also insured on a claims-made basis through a commercial insurance carrier for malpractice losses up to \$6,000,000 per occurrence, with a total limit of \$8,000,000, and with a self-insurance retention of \$100,000 per occurrence up to a maximum of \$300,000 in the aggregate per year.

The Hospital has been named as defendant in lawsuits alleging medical malpractice. Management of the Hospital, using information provided by its commercial insurance carrier, has accrued in the financial statements its best estimate of probable contingent losses on these claims and on estimated claims incurred but not reported.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

5. Contingencies (continued)

The Hospital is self-insured for workers' compensation up to \$100,000 per claim and for employee health insurance up to \$100,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The Hospital purchased commercial insurance that provides coverages for workers' compensation and employee health claims in excess of the self-insured limits.

Changes in the Hospital's aggregate claims liability for medical malpractice, workers' compensation, and employee health insurance in fiscal years 2005 and 2004 were as follows:

Year Ended September 30	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2005	\$ 1,814,000	\$ 2,876,000	\$ 2,470,000	\$2,220,000
2004	\$ 1,854,000	\$ 2,554,000	\$ 2,594,000	\$1,814,000

6. Postemployment Benefits

The Hospital provides health care benefits to retired Hospital employees and their families. Employees with at least ten years of service and who are age 55 or older at retirement are eligible to participate. Effective January 1, 1996, plan participants are required to contribute 100% of the Plan's monthly premium. The Hospital records the excess benefits over the contributions as expense as the benefits are used. For the fiscal year ended September 30, 2005, 20 retired employees participated in the Plan.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

7. Property, Plant, and Equipment

Property, plant, and equipment at September 30, 2005 and 2004, consisted of the following:

	Beginning Balance	Additions	Reclassification/ Retirements	Ending Balance
2005				
Land and land improvements	\$ 3,370,155	\$ 2,380,824	\$ —	\$ 5,750,979
Building and fixed equipment	45,089,596	896,486	—	45,986,082
Equipment	48,128,150	1,680,267	(2,457,582)	47,350,835
Construction in progress	14,391,254	22,893,775	(3,229,869)	34,055,160
	110,979,155	27,851,352	(5,687,451)	133,143,056
Less accumulated depreciation and amortization	(49,621,210)	(7,541,994)	2,454,660	(54,708,544)
Property, plant, and equipment, net	\$ 61,357,945	\$ 20,309,358	\$ (3,232,791)	\$ 78,434,512
	Beginning Balance	Additions	Reclassification/ Retirements	Ending Balance
2004				
Land and land improvements	\$ 3,338,077	\$ 32,078	\$ —	\$ 3,370,155
Building and fixed equipment	43,795,319	1,476,913	(182,636)	45,089,596
Equipment	46,658,836	5,399,624	(3,930,310)	48,128,150
Construction in progress	2,618,410	13,170,413	(1,397,569)	14,391,254
	96,410,642	20,079,028	(5,510,515)	110,979,155
Less accumulated depreciation and amortization	(46,339,500)	(7,272,523)	3,990,813	(49,621,210)
Property, plant, and equipment, net	\$ 50,071,142	\$ 12,806,505	\$ (1,519,702)	\$ 61,357,945

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

8. Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through September 2010. The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year.

2006	\$ 232,657
2007	230,701
2008	230,701
2009	230,701
2010	215,383
	<u>\$ 1,140,143</u>

Total rental expense was \$1,142,000 in 2005 and \$1,179,000 in 2004.

The Hospital leases office space in a medical office building and clinical facilities, generally to members of its medical staff, under operating leases with terms ranging up to five years. The future minimum lease payments to be received from these leases follow:

2006	\$ 653,000
2007	80,000
	<u>\$ 733,000</u>

The cost of assets held for lease totaled \$5,090,000 at September 30, 2005. Related accumulated amortization was approximately \$419,000 at September 30, 2005.

Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Basic Financial Statements (continued)

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of gross receivables from third-party payers at September 30, 2005 and 2004, was as follows:

	2005	2004
Self-pay	39%	38%
Medicare	26	30
Medicaid	6	6
Managed care	26	24
Other	3	2
	<u>100%</u>	<u>100%</u>

10. Governmental Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government, laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Commissioners
Hospital Service District No. 3 of the
Parish of Lafourche, State of Louisiana

We have audited the financial statements of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the Hospital), as of and for the year ended September 30, 2005, and have issued our report thereon dated January 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of commissioners, management, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

January 26, 2006

The Board of Commissioners
Hospital Service District No. 3 of the Parish
of Lafourche, State of Louisiana

In planning and performing our audit of the financial statements of Hospital Service District No. 3 of the Parish of Lafourche, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (the Medical Center), for the year ended September 30, 2005, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards dated January 26, 2006, which note no material weaknesses in internal control and no instances of noncompliance. However, we would like to provide you with an update on the prior-year observations provided to you in our letter dated February 1, 2005.

The following are the comments included in our letter to you dated February 1, 2005.

Interim Financial Reporting

The Medical Center's interim financial statements are used by management and the board of commissioners to make investment and operating decisions. Accordingly, it is important that the interim financial statements reflect a fair presentation of interim results and incorporate all necessary adjustments. Significant adjustments were recorded to the year-end financial statements as a result of the audit process. We believe management could improve the interim accounting processes. Specifically, three of the more significant areas that should be focused on include the allowance for contractual adjustments, the allowance for uncollectible accounts, and the third-party accounts.

The allowance for contractual adjustments estimate is material and highly sensitive to changes in historical collection rates. We suggest management establish a process to assess the adequacy of prior-period contractual allowance estimates through a retrospective analysis similar to the hindsight review of the allowance for uncollectible accounts. We also suggest that management's periodic assessment of the allowance for uncollectible accounts estimate be expanded to include a monthly table of historical collection and write-off amounts by financial class to develop data. Over time, trends in this data can provide management with additional indicators of the net realizable value of accounts receivable. The settlement reserves are the final allowance that uses a significant amount of judgment in estimating cost-based reimbursements with governmental payers. Laws and regulations governing these reimbursements are complex and subject to interpretation. Management recognizes reserves for specific items where

potential exposure exists due to differing interpretations of these governmental regulations. We recommend that management expand their process and add an analysis of the development of prior years' specific reserve items.

Current-Year Update

Management has instituted processes to enhance their estimation processes based on the recommendations provided above. These enhancements include periodically assessing the adequacy of prior contractual allowance estimates, tracking write-off data by financial class on a monthly basis, and comparing prior third-party settlement reserves estimates with actual settlements.

* * * * *

This letter is intended solely for the information and use of the finance committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions at your convenience.

Ernst + Young LLP

January 26, 2006